

CAREFIRST
RETENTION BONUS PLAN

CareFirst, Inc., a Maryland not-for-profit corporation, and its Affiliated Companies executing this Plan (the "*Company*"), have determined that it is in the best interests of the Company and its stakeholders to adopt the CareFirst Retention Bonus Plan (the "*Plan*") to provide benefits to key employees of the Company in connection with a proposed sale or disposition of the Company in accordance with the terms and conditions set forth below. The purpose of the Plan is to provide key employees with financial incentives in connection with a proposed sale or disposition of the Company in order to secure the key employees' commitment and dedication to the Company, to enlist their support in the Company's efforts to locate a strategic partner or acquirer and to ensure that they conduct the affairs of the Company in such manner as to maintain the highest possible value for the stakeholders.

1. Definitions. The following definitions shall apply for purposes of the Plan:

(a) "*Affiliate*" means any corporation, trade or business (whether or not incorporated) which controls, is controlled by, or is under common control with, the Company (within the meaning of Sections 414(b) and 414(c) of the Internal Revenue Code of 1986, as amended).

(b) "*Base Salary*" means the Participant's annualized base salary as in effect immediately before the Closing Date or the Participant's earlier date of termination, as applicable, but not taking into account any decrease in the Participant's annualized base salary that is effective within the twelve- (12-) month period immediately preceding the Closing Date.

(c) "*Board*" means the Boards of Directors of the Company.

(d) "*Cause*" means any of the following which is not cured, if capable of being cured, within fifteen (15) days after written notice is provided to the Participant specifying the event, act or failure to act that forms the basis for termination for "*Cause*": (i) conviction of a felony, plea of guilty or *nolo contendere* to a felony charge or any criminal act involving moral turpitude; (ii) dishonesty (including but not limited to any acts of fraud, embezzlement or misappropriation of funds); (iii) serious dereliction of fiduciary obligation; (iv) insubordination; (v) willful unauthorized disclosure of confidential information belonging to the Company, or entrusted to the Company by a client, customer, or other third party; (vi) violation of any material Company rule, regulation or policy; (vii) any act materially adverse to the interests of the Company; (ix) failure to perform the material duties of the Participant's position to the reasonable satisfaction of the Board or the officer to whom the Participant reports, except in the event that the Participant is Disabled; (x) repeatedly being under the influence of drugs or alcohol (other than prescription medicine or other medically-related drugs to the extent

that they are taken in accordance with their directions) during the performance of the Participant's duties, or, while under the influence of such drugs or alcohol, engaging in grossly inappropriate conduct during the performance of the Participant's duties; (xi) engaging in behavior that would constitute grounds for liability for harassment (as proscribed by the U.S. Equal Employment Opportunity Commission Guidelines or any other applicable state or local regulatory body) or other egregious conduct that violates laws governing the workplace. Notwithstanding the foregoing, if the Participant is a Tier 1 Participant covered by an employment agreement with the Company and the Letter of Participation delivered to such Participant specifies that the definition of "Cause" set forth in the Participant's employment agreement shall be controlling for purposes of this Plan, then "Cause" shall have the meaning set forth in the Participant's employment agreement rather than the meaning set forth in the preceding sentence.

(e) "*Closing Date*" means, (i) in the case of a Sale or Disposition of the Company, the closing date of such Sale or Disposition, as defined under the applicable transaction agreement, or (ii) in the case of a determination by the Board that the Company has abandoned the pursuit of a Sale or Disposition, the date fixed by the Board.

(f) "*Code*" means the Internal Revenue Code of 1986, as amended, together with all regulations promulgated thereunder.

(g) "*Company*" means CareFirst, Inc., CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc., or any successor corporation thereto by merger, consolidation, purchase or otherwise.

(h) "*Disabled*" means the Participant has a physical or mental infirmity that causes the Participant to be substantially unable, despite reasonable accommodations by the Company, to perform the Participant's material duties as determined by the Chief Executive Officer of the Company in good faith.

(i) "*Effective Date*" means the date set forth in Section 11(c) of this Plan as the effective date of this Plan.

(j) "*Good Reason*" means:

(i) a material reduction in the Participant's responsibilities, duties, or authority;

(ii) the transfer of the Participant, without the Participant's written consent, to a location that results in a commuting distance for the Participant that is more than fifty (50) miles greater than the Participant's commute as of the Effective Date; or

(iii) failure by the Company to provide to the Participant aggregate fixed and incentive compensation arrangements that are at least comparable to the aggregate fixed and incentive compensation arrangements provided to similarly

situated employees of the Company and its Affiliates, not taking into consideration for this purpose any amounts payable pursuant to this Plan;

provided, however, that the Participant must first give written notice of termination to the Company outlining the event that forms the basis for such Good Reason and the Company will have thirty (30) calendar days from the date of receipt of such notice to effect a cure of the event described therein, which, if cured to the Participant's reasonable satisfaction, will no longer constitute Good Reason for purposes of this Plan. Notwithstanding the foregoing, if the Participant is a Tier 1 Participant covered by an employment agreement with the Company and the Letter of Participation delivered to such Participant specifies that the definition of "Good Reason" set forth in the Participant's employment agreement shall be controlling for purposes of this Plan, then "Good Reason" shall have the meaning set forth in the Participant's employment agreement rather than the meaning set forth in the preceding sentence.

(k) "*Letter of Participation*" means a written letter delivered by the Chief Executive Officer to a Company employee, and executed by such employee, specifying that such employee has been selected by the Chief Executive Officer as a Participant in the Plan and specifying the amount payable as a Retention Bonus to which the employee may become entitled.

(l) "*Participant*" means a Senior Vice President, Vice President or Director of the Company who has been selected by the Chief Executive Officer of the Company to participate in the Plan and who has executed a Letter of Participation.

(m) "*Plan*" means the CareFirst Retention Bonus Plan.

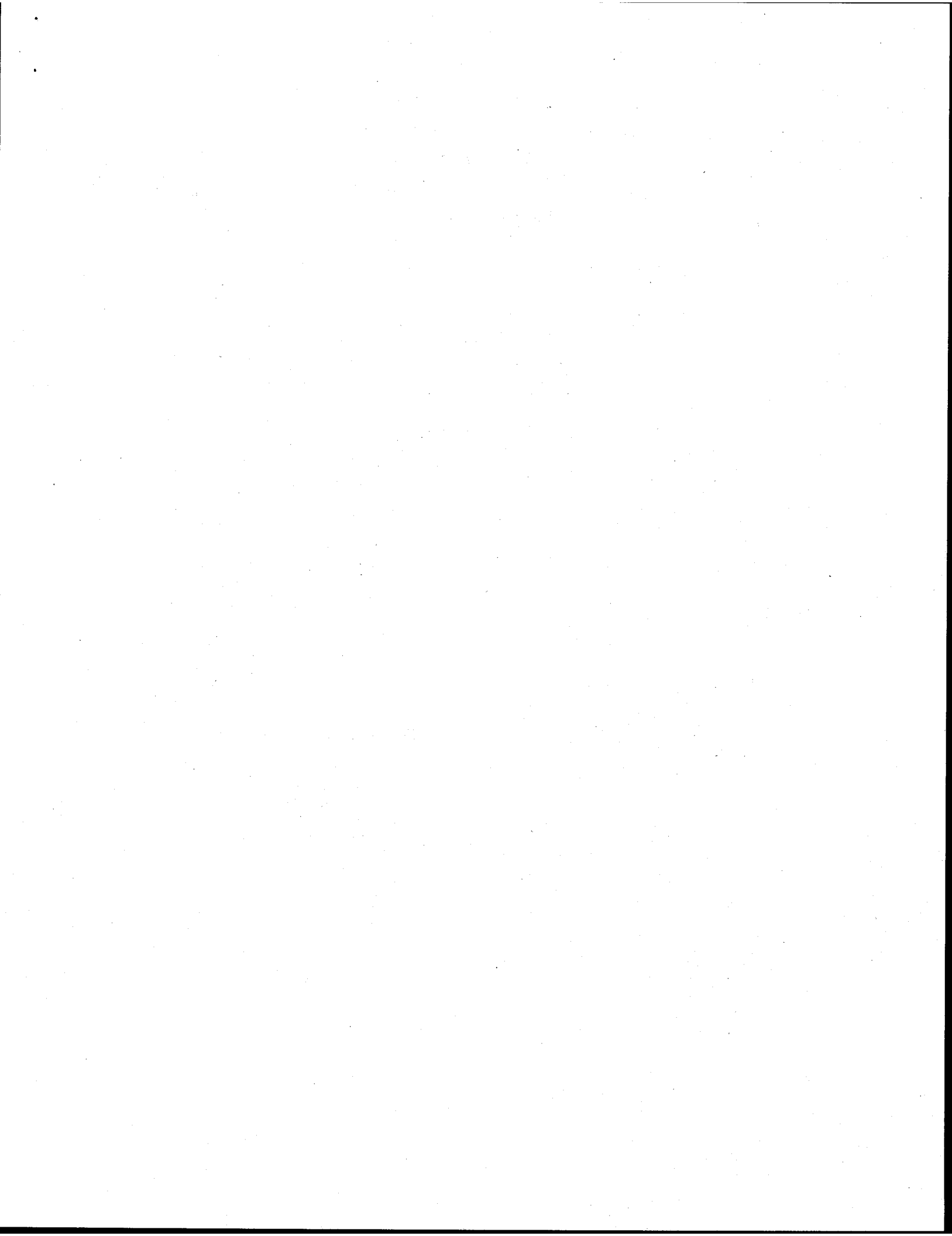
(n) "*Plan Administrator*" means the Board or its delegate.

(o) "*Retention Bonus*" means the amount payable to a Participant pursuant to Section 3 of this Plan.

(p) "*Sale or Disposition*" means the first of any of the following to occur:

(i) a merger, acquisition, consolidation or other transaction involving the Company after which the individuals who constituted members of the Board twelve (12) months before the consummation of such transaction do not constitute a majority of the Board or other similar governing body of the most senior resulting business entity after such transaction; or

(ii) a sale, lease or exchange of more than fifty percent (50%) of the assets of the Company and its subsidiaries to one or more organizations or entities not more than fifty percent (50%) owned by the Company after the consummation of such transaction;



provided, however, that a Sale or Disposition shall in no event be deemed to have occurred if the Company is placed in receivership or under control of the Commissioner of Insurance with jurisdiction over the Company, and the Participants shall not receive any bonuses under this Plan if any local, state, or federal regulator assumes control of the Company.

(q) "Settlement Date" means the Retention Bonus payment date which shall occur as promptly as possible, but in no event later than the fifth (5th) business day, after the Closing Date.

(r) "Tier 1 Participant" means a Participant holding the title of Senior Vice President or higher with the Company.

2. Participation. The Chief Executive Officer, in his discretion within parameters established by the Board, will determine the Company employees who shall become Participants in the Plan. The Company will deliver a Letter of Participation to each employee selected by the Chief Executive Officer that indicates the amount of the Retention Bonus to which the employee will become entitled in the event the conditions for payment of the Retention Bonus are satisfied. The employee will become a Participant in the Plan upon execution of such Letter of Participation.

3. Conditions for and Payment of Retention Bonus.

(a) In the event of (i) a Sale or Disposition of the Company, or (ii) a determination by the Board that the Company has abandoned the pursuit of a Sale or Disposition, each Participant (x) who is employed with the Company and/or an Affiliate continuously from the Effective Date (or subsequent hire date) through the day immediately preceding the Closing Date, or (y) whose employment with the Company and its Affiliates is terminated within the twelve- (12-) month period immediately preceding the Closing Date either by the Company or its Affiliate without Cause or, if a Tier 1 Participant, by the Participant with Good Reason, shall receive a Retention Bonus payment as specified in this Section 3. No Participant shall be entitled to receive more than one Retention Bonus under this Plan.

(b) The amount of the Retention Bonus payment to any Participant shall be a multiple of the Participant's Base Salary as specified in the Letter of Participation delivered to and executed by the Participant.

(c) All Retention Bonus amounts shall be paid in cash in a single payment on the later of the Settlement Date or the eighth (8th) day after the Participant executes the Waiver in accordance with Section 5.

4. Withholding Taxes. The Company shall have the right to deduct from the Retention Bonus payment or any other payment of any kind due the Participant (or the Participant's estate) all taxes which, by applicable federal, state, local or other law, the Company or any Affiliate is required to withhold in connection with the Retention Bonus.

5. Full Settlement; Resolution of Disputes. The Company's obligation to make the payments provided for in this Plan and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Participant or others; provided, however, that as a condition to receiving any payment under this Plan, the Participant must execute a general release and waiver (the "Waiver"), in form and substance satisfactory to the Company and within the time frame established by the Company, releasing the Company and all of its Affiliates and their respective agents, officers, directors, shareholders, employees, attorneys and assigns from any liability arising out-of, or in connection with, the Participant's employment or termination of employment with the Company and its Affiliates, including, but not limited to, rights and claims arising under the Age Discrimination in Employment Act of 1967, as amended by the Older Workers Benefit Protection Act of 1990, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, the Fair Labor Standards Act, any state or local human rights statute or ordinance, any claims or rights of action relating to breach of contract, fraud, negligence (including negligent hiring and retention), prima facie tort, implied contracts or implied covenants of good faith and fair dealing, public policy, personal or emotional injury, defamation, additional compensation, or fringe benefits, and any and all other federal, state and local statutes, cases, authorities or laws providing a cause of action that can be the subject of a release under applicable law. Notwithstanding the foregoing, the Waiver shall not apply to (a) any claim for indemnification of any Participant as an officer or director of the Company or any Affiliate in accordance with and subject to the By-laws of the Company or any Affiliate, or (b) any claim for benefits to which the Participant is entitled under any employee benefit plan (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended) maintained by the Company or any Affiliate.

6. Reimbursement of Expenses; Arbitration. Any dispute or controversy arising under or in connection with this Plan, which cannot be resolved by negotiations between the Company or an Affiliate and the Participant, shall be settled exclusively by arbitration, in the city in which the principal executive offices of the Company are located in which a United States District Court is situated or such other place as the parties may mutually agree, by three arbitrators in accordance with the rules of JAMS/ENDISPUTE, Inc. then in effect. The arbitrator shall apply the laws of the state of Maryland with respect to the interpretation or enforcement of any matter relating to this agreement. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The Company agrees to pay all legal fees and expenses which the Participant may reasonably incur as a result of any contest pursued or defended against in good faith by the Participant regarding the Plan plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code; provided that the Participant is the prevailing party in such contest.

7. Maximum Amount of Retention Bonuses. The aggregate amount of Retention Bonuses allocable to Participants under the Plan by the Chief Executive Officer shall not exceed an amount determined by the Board.

8. Termination or Amendment of Plan.

(a) This Plan shall be in effect as of the Effective Date and may be terminated on or after the fifth (5th) anniversary of the Effective Date by specific action of the Board but, absent such action, shall continue in effect indefinitely.

(b) The Company, by resolution of the Board, may amend or modify this Plan subject to Section 8(a) above; provided, however, that no such amendment or modification which would adversely affect the rights or potential rights of any Participant to whom a Letter of Participation has been delivered shall be effective before the fifth (5th) anniversary of the Effective Date without the written consent of the Participant.

9. Successors.

(a) This Plan shall not be terminated by any merger, consolidation, share exchange or similar event involving the Company. In the event of any merger, consolidation, share exchange or similar event, the provisions of this Plan shall be binding upon the surviving or resulting corporation or the person or entity to which such assets are transferred.

(b) This Plan shall inure to the benefit of and be enforceable by each Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If a Participant shall die while any amounts are payable to the Participant hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to the Participant's estate.

10. Governing Law; Validity. The interpretation, construction and performance of this Plan shall be governed by and construed and enforced in accordance with the laws of the State of Maryland without regard to the principle of conflicts of laws. The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which other provisions shall remain in full force and effect.

11. Miscellaneous.

(a) Neither the Company nor any Affiliate shall be required to fund or otherwise segregate assets to be used for the payment of any benefits under the Plan. The Company shall make such payments only out of its general corporate funds, and therefore its obligation to make such payments shall be subject to any claims of its other creditors having priority as to its assets.

(b) Payment of any Retention Bonus in cash shall be deemed to constitute a payment under the Participant's employment agreement with the Company, if any, for purposes of any tax gross-up provisions therein.

(c) The "Effective Date" of the Plan is July 26, 2001.

(d) This Plan does not constitute a contract of employment or impose on the Company or any Affiliate any obligation to retain the Participant as an employee before or after a Sale or Disposition, to change the status of the Participant's employment, or to change the policies of the Company or its Affiliates regarding termination of employment.

Executed this 2nd day of December, 2001.

CAREFIRST, INC.

By: Daniel J. Kelleys

Its: _____

CAREFIRST OF MARYLAND, INC.

By: [Signature]

Its: _____

GROUP HOSPITALIZATION AND MEDICAL
SERVICES, INC.

By: Edward D. Bero

Its: _____

[CareFirst letterhead]

Letter of Participation

Dear _____,

We are pleased to advise you that you have been selected to be a Participant in the CareFirst Retention Bonus Plan (the "Plan"), a copy of which is attached and is a part of this Letter of Participation. All capitalized terms used in this Letter of Participation have the meaning set forth in the Plan.

Under the Plan, you may be entitled to receive a Retention Bonus in the event that (1) a Sale or Disposition occurs or the Board determines that the Company has abandoned its pursuit of a Sale or Disposition and (2) one of the employment conditions specified in Section 3(a)(x) or (y) of the Plan is satisfied. Please read the attached copy of the Plan carefully to understand the terms and conditions under which such Retention Bonus will be paid.

In the event that you become entitled to receive a Retention Bonus, your Retention Bonus will be equal to the product of your Base Salary multiplied by ____.

You will become a Participant in the Plan only if you sign and return a copy of this Letter of Participation to John Picciotto by _____, 200__.

If you have any questions regarding your participation in the Retention Bonus Plan, they should be addressed to John Picciotto at (410) 998-7810.

Sincerely,

I hereby acknowledge that I have received and read the copy of the CareFirst Retention Bonus Plan delivered to me with this Letter of Participation, and I hereby accept and agree to the terms and conditions set forth in such document.

(Signature)

Date: _____

